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**Board of Directors
Eighteenth Annual Study
1991**

KORN/FERRY INTERNATIONAL

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KORN/FERRY INTERNATIONAL
EIGHTEENTH ANNUAL BOARD OF DIRECTORS STUDY



Introduction

Since 1991 marks the beginning of the new decade, as a part of this year's study, we decided to look back over the 1980s to see how boards of directors have changed in the intervening years. Examining past data helps put the current figures in perspective and gives us a clearer understanding of where board practices are headed.

We found that there have been some significant and fascinating changes over the past 10 years, in terms of board composition, compensation and hours dedicated to board activities on the part of today's directors. Most notably, we discern a dramatic rise in the representation of women and minorities on corporate boards and a marked decrease in the presence of commercial bankers and outside attorneys, as boards strive to incorporate a wider range of perspectives.

We also looked at some emerging trends in corporate boards, focusing on those qualities most desired in directors and those areas in which board members make the greatest contributions to the companies they help direct. We found that CEOs look to their boards for wisdom gained from experience, for intellectual give-and-take, and for a more expansive perspective to help guard against corporate insularity and invite new approaches to problem solving.

Then And Now

Although all indications intimate that boards of directors have become more active participants in corporate governance, boards continue to exert their influence behind the scenes; only five percent of the respondent firms report that their boards are concerned with day-to-day operations. In fact, despite the heightened board influence, the number of meetings, time spent on board activities and the average size of boards has decreased over time.

- In 1990, the average size of corporate boards was 12 members, down from 13 directors in 1980.
- The average number of meetings dropped from eight in 1980 and 1986 to seven in 1990.
- In addition to the reduced frequency of board meetings, the amount of time spent to prepare for and attend each meeting fell from an average of 10.4 hours per meeting in 1980 to 9.1 hours 10 years later.

- The average number of hours spent on board activities by outside directors fell from 122 in 1980 and 114 in 1986 to 93 hours in 1990.
- More than half of the reduction in hours spent by outside directors can be attributed to less time spent in travel to attend meetings as video and telephonic board meetings have gained increased acceptance.

The last decade was one of profound social and demographic change. These changes were not confined to the street or the public sector of the economy; they have also reverberated through the nation's board rooms.

- The percentage of boards having seated women has risen steadily. In 1980, only 36 percent of the boards surveyed had women directors. By 1986, 43 percent of boards had women members, and 56 percent of today's boards seat women.
- The number of boards reporting minority representation has more than doubled, from a low of 17 percent in 1980 and 30 percent in 1986 up to 36 percent in 1990.
- Academicians were seated on 48 percent of the boards surveyed in 1980. By 1986, 50 percent of the respondents reported seating academicians; the figure rose to 55 percent in 1990.
- At the same time, the percentage of boards with commercial bankers as outside members has declined from 38 percent in 1980 to 29 percent in 1990.
- Attorneys who provide legal services to the companies on whose boards they sit have also declined markedly in representation. In 1980, 32 percent of the boards reported seating one of their own outside lawyers. By 1986, only a quarter of the respondents had one of their attorneys on their board, and in 1990 the incidence dropped to 21 percent.

Compensation for outside board members far outpaced inflation during the last decade.

- In 1980, the average outside director earned \$14,570 in total annual compensation. By 1990, that annual earnings increased to \$26,190. This 80 percent increase in board member compensation well exceeded the 59 percent increase in the cost of living experienced during same years.
- The highest paid outside director in each board surveyed saw their total compensation greatly surpass the increase enjoyed by the average board member. In 1980, the highest paid director was paid an average of \$18,530; by 1990, the best paid directors were averaging \$36,725 in total annual compensation, a 98 percent increase in 10 years.

- Average committee fees also exceeded the rate of inflation during the past decade. In 1980, committee fees averaged \$523 per meeting; by 1990, they rose to \$913, a 75 percent increase.
- Finally, the most prevalent method of compensation has increasingly become payment of an annual fee plus per-meeting fees. By 1990, 88 percent of all boards paid their directors in this manner, up from 78 percent 10 years earlier. Only 10 percent of respondent firms continue to pay directors with annual fees alone. Compensating board members with only per-meeting fees has all but fallen into disuse, dropping from four percent in 1980 to a mere two percent by 1990.

What a CEO Values Most in a Board Member

CEOs look to their outside directors to give them sound counsel and a broad perspective. Not surprisingly, CEOs express a strong preference for directors who are now themselves, or have once been, at the helm of a successful corporation. CEOs want at least some of their board members to be people who understand the role and challenges of corporate leadership, as only respected peers can. CEOs of other companies continue to be the most prevalent and most sought-after individuals for the position of outside director, with 80 percent of all boards reporting a member meeting this profile.

As a consequence, the most valued candidates for outside directors are those business leaders with experience as CEOs and COOs of other companies. Ninety-two percent of the CEOs surveyed expressed a desire to have peers on their boards. The next most preferred category, favored by 69 percent of those polled, was that of retired CEOs of other companies.

Sixty-one percent of the CEOs surveyed would include academicians on their boards and 44 percent would include retired senior executives of other companies. Former government officials were valued by only 39 percent of the CEOs polled, but former public administrators were regarded much more favorably by the largest firms. Fully 63 percent of the CEOs of companies reporting over \$5 billion in revenues would include former government officials on their boards.

The least desirable category of prospective board members continues to be "professional" directors, who would be considered by only 18 percent of those questioned.

The most important background for directors remains experience in major corporations, followed by prior board experience and then industry-specific and multi-industry experience. Specialty backgrounds, such as experience with joint ventures, environmental issues, turnarounds, mergers and acquisitions, and financial restructuring are all in much less demand.

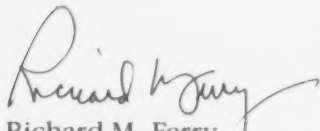
The most desired personal qualities for board members, cited by our respondents, are exceptional judgment, open-mindedness and a participative nature. Eighty-six percent of those surveyed ranked judgment as being among the most sought after traits in a director. Additionally, 51 percent of the respondents considered a participative and open-minded attitude among the most important traits.

Clearly, today's CEOs want someone they can talk with openly and candidly. A full 82 percent stated that they like to converse with individual directors for brainstorming sessions between formal meetings.

Contrary to conventional wisdom, CEOs are not particularly influenced by external factors that extend beyond the confines of the boardroom. A director's contacts, credibility with Wall Street, confidence of institutional investors, knowledge of other cultures and languages, and even prestigious image are all prized far less than that individual's ability to understand and evaluate ideas and to share one's wisdom and counsel in an open manner.

What emerges from our survey is an understanding that boards of directors serve a critical function by expanding the CEO's frame of reference by bringing judgment born of extended experience, while, at the same time, providing a refuge from the strictures of hierarchy and isolation at the top.

Sincerely,



Richard M. Ferry
Chairman of the Board

June 1991

SUMMARY OF FINDINGS—EIGHTEENTH ANNUAL STUDY

On a question-by-question basis, the following are the key findings of the Korn/Ferry International Eighteenth Annual Board of Directors Study.

Size of Board (Table 1)

The average corporate board now comprises 12 directors, the smallest board size reported since our study began in 1973.

As in the past, the average number of board members varies with both the type of business and the company size. As would be expected, companies with revenues under \$400 million have the smallest boards (with an average of nine members), while companies with revenues of \$5 billion and over report seating an average of 14 members. The largest boards are found among banks and other financial institutions and insurance companies, which now average 15 members. Even these boards have been downsized, however. Past studies have shown that banks and other financial institutions have reported seating boards which average as many as 18 members.

Inside Directors vs. Outside Directors (Table 1)

Corporate boards now have an average of three inside directors and nine outside directors, one less outside director than reported both in 1989 and in 1986.

Is the Chairman also the CEO? Is the CEO also the COO? (Table 2)

Seventy-seven percent of this year's respondents report that their chairman is also the chief executive officer, down slightly from the 79 percent reported last year but the same as reported in 1986. This overlapping of responsibilities occurs most frequently in the largest companies. Ninety-four percent of the \$5 billion and over firms have their corporate heads assume this combination of roles. Sixty-eight percent of all chief executive officers surveyed (and 87 percent of those at \$5 billion-plus companies) see no advantage to separating the chairman and CEO function, down from 77 percent last year.

Forty-four percent of the respondents report that their chief executive officer is also their chief operating officer, an increase from the 38 percent reported both last year and five years ago.

Board Composition (Table 3)

The major sources of directors continue to be chief executive and chief operating officers of other companies (80 percent) and retired executives of other companies (62 percent). Women were seated on 56 percent of the boards surveyed. Directors with these three backgrounds are even more prevalent on the boards of billion dollar companies.

Academicians, retired corporate officers and commercial bankers increased their average representation since 1986 on all boards. However, there was a decline in the number of companies who reported seating senior executives of other companies and attorneys who provide legal services for the company.

Representation among women dipped slightly, from 59 percent last year to 56 percent this year. However, this is well above the 43 percent reported by the boards five years ago.

Minority membership, on the other hand, increased from 32 percent last year to 36 percent in 1990 (Table 3A). Once again, both women and ethnic minority directors come primarily from the ranks of academia and CEOs/COOs of other companies (Table 3B).

As in 1986 and 1989, insurance companies report the highest number of women directors on their boards, at 71 percent. This year, retailers, and the largest industrials, with revenues of \$5 billion and over, followed at 65 percent. The boards of \$5 billion-and-over industrials also seat the greatest number of ethnic minorities (48 percent).

Eighty-seven percent of all respondents, and 90 percent of the billion dollar industrials, report that their CEO is a member of their board, while 52 percent seat the president/COO and 30 percent include the chief financial officer.

International Experience

Sixty-four percent of all respondents believe a director with international experience would be an asset to the board, about the same as last year. Western Europe followed by Eastern Europe were most often cited as areas in which expertise would be most valued. Whereas in 1989 only three percent of the respondents cited Eastern Europe as an area where expertise would be most in demand, 35 percent did so this year. Conversely, whereas in 1989 14 percent of the participants chose Canada as a country where representation would be valued, only two percent chose it in 1990 (Table 3C).

Forty-two percent of all respondents and 64 percent of the \$5 billion-and-over industrials believe that the EEC unification of 1992 will open new markets for the company. Not surprisingly, 44 percent of the companies respond that unification will increase the need for executives based outside the U.S. Fifty-five percent believe EEC unification will increase competition, and 74 percent of the largest industrials, \$5 billion and over, believe competition will intensify as a result.

Fifty-seven percent of all participants feel that economic development of the Eastern European bloc will open new markets for the companies. Sixty-six percent of industrial and service firms with revenues of over \$1 billion see new markets opening due to economic development in Eastern Europe and 85 percent of the \$5 billion-and-over corporations do so.

International Advisory Boards

Only four percent of all respondents currently have an international advisory board, down slightly from the average reported last year. However, 13 percent of all boards and 23 percent of the \$5 billion-and-over companies are considering establishing one. This is a marked increase compared with the five percent of all respondents that considered forming an international advisory board in 1989.

Of those companies already employing international advisory boards, an average of two members are U.S. citizens and three are citizens of other countries. Members of international advisory boards received an average total compensation of \$18,275 in 1990.

An average of two meetings of advisory boards were held in 1990.

Compensation (Table 4)

The annual plus per-meeting fee structure continues to be the predominant form of compensation for outside directors, with 88 percent of this year's respondents reporting its use. Ten percent of the respondents compensate their directors with an annual fee only. The most infrequent mode of compensation, now used by only two percent of the companies surveyed, is the payment of per-meeting fees only. (Table 4A).

Annual Plus Per-Meeting Fee (88 percent of the respondents)

Outside directors compensated on an annual plus per-meeting fee basis earned an average of \$26,190 in 1990, up six percent from \$24,729 in 1989. Compensation has risen 28 percent from the \$20,462 average of five years ago. At the same time, the percentage of those earning \$25,000 and over has more than doubled, from 25 percent five years ago to 56 percent this year. Conversely, the percentage of directors earning under \$14,000 has decreased substantially, to three percent from 19 percent in 1986 (Table 4B).

The \$26,190 total average annual compensation is made up of an average annual fee of \$18,392 and a per-meeting fee of \$1,015, up from \$17,824 and \$986, respectively, last year and up from the \$14,096 annual fee and \$775 per-meeting fee reported five years ago.

As in the past, the larger the company, the higher the compensation. Directors of billion dollar industrial and service corporations earned an average of \$28,403, while directors of \$5 billion-and-over companies received \$34,839, up from \$24,264 and \$28,820, respectively, five years ago. Retailers reported the largest increase in compensation compared with last year, from \$24,139 in 1989 to \$29,250 in 1990.

The upper quartile average for all participants was \$36,297, up 26 percent from the \$28,715 reported in 1986. The average upper quartile for \$5 billion-and-over dollar companies was \$43,406 (Table 4C).

Annual Fee Only (10 percent of the respondents)

The average earnings of outside directors receiving an annual fee only increased 47 percent over the past five years. Average compensation rose from \$19,744 to \$29,073.

Per-Meeting Fee Only (Two percent of the respondents)

Respondents in the smallest category, who compensate their directors for meetings only, reported an average per-meeting fee of \$2,014, a 79 percent jump over the average \$1,127 of five years ago.

Committee Compensation (Table 5)

Eighty-four percent of this year's participants provided additional compensation to their outside directors for committee service, and 58 percent compensate for chairing a committee. Per-meeting fees ranged from a low of \$810 for members of the compensation/benefits committee to a high of \$1,119 for directors serving on the executive committee (Table 5A). As reported in the past, banks and other financial institutions generally paid the lowest per-meeting fees for committee service.

Total Annual Compensation

The average total compensation reported for outside directors, including committee fees, was \$32,352. Again, as expected, the larger the company, the higher the compensation. Directors of billion dollar corporations earned an average of \$36,140, up from \$34,424 last year and \$28,686 five years ago. Directors of the \$5 billion-and-over companies received an average \$44,615, an eight percent increase over last year's average. By comparison, directors of the smaller industrials, those with revenues under \$400 million, received an average total compensation of only \$23,933.

The upper quartile average for all responding directors was \$47,187, with averages ranging from \$30,440 for industrials with under \$400 million in revenues to \$60,744 for the \$5 billion-and-over firms (Table 5B).

Additional Compensation Information (Table 6)

Forty-two percent of the participants indicate that they increased compensation for their outside directors during the past year. This is up slightly from the 40 percent reported in 1989. In 1990, fees were raised by an average of \$4,571 for the annual retainer and \$243 for the per-meeting fee, compared with increases of \$3,190 and \$251, respectively, reported last year. Five years ago, total compensation was raised by an average of \$2,923. The largest increase was reported by the \$5 billion-and-over industrials, who increased board compensation by

an average \$7,006 in annual fees and \$185 in per-meeting fees (Table 6A).

Eighty-nine percent of this year's respondents believe that outside directors are adequately compensated for board services, about the same as last year. Insurance companies reported the most satisfaction with director compensation at 92 percent, while retailers, at 62 percent, were the least satisfied corporate sector. Interestingly, retailers were among the highest paid of all industry groups.

Seventy percent of all participants, and 77 percent of billion dollar companies, compensated their outside directors for teleconference calls. Of the 70 percent who paid for teleconferences, the average compensation was \$863 per call for all companies, up from \$809 last year.

Average total compensation for the highest paid outside director was \$36,725 for all board services exclusive of any consulting fee arrangements, up seven percent from last year's average of \$34,382. Five years ago, the highest paid directors received annual compensation of \$28,572. The highest paid directors at the billion dollar firms earned \$40,395, while 43 percent at the largest industrials (\$5 billion and over) compensate their highest paid directors with payment in excess of \$50,000. The upper quartile average for all directors was \$57,172, up from the \$55,168 reported in 1989 (Table 6B).

Benefits

The provision of benefits as an important component of compensation plans for outside directors continues to be popular. Travel expenses for spouse (30 percent) and the matching of educational gifts (52 percent) are commonly offered. Travel expense reimbursement was provided by 91 percent of the respondents, about the same as last year. Only 81 percent of all participants are now offering directors' liability insurance. A decrease in providing this benefit has occurred because an increasing number of firms, particularly those in troubled industries, are finding underwriters reluctant to renew their coverage. It should be noted, however, that while 81 percent represents a decline from 1989, it is roughly equivalent to the 84 percent of respondents that reported providing liability insurance five years ago.

The option of deferring board fees until after retirement is offered by 64 percent of the respondents, although this dipped slightly from 67 percent in 1986 (Table 6C). While only 33 percent of the smallest industrials with revenues under \$400 million have an income deferral plan, 74 percent of the billion dollar companies and 87 percent of the \$5 billion-and-over companies offer such an option.

This year, 15 percent of all companies and 35 percent of the largest companies, \$5 billion and over, offered stock grants as a perquisite.

Similarly, 25 percent of all respondents provided stock options for their outside directors, about the same as last year. However, this is up considerably from five years ago, when eight percent of the companies offered stock options. The smallest companies, industrials with revenues under \$400 million, were most inclined to offer stock options at 33 percent, while only 15 percent of the largest firms, \$5 billion and over, included options in their benefit plan. Of those who favor granting these options, 76 percent believe they help to forge an alliance between directors and stockholders. Last year, 86 percent of the respondents believed similarly.

Despite the relatively low incidence of the use of stock options, 61 percent of the CEOs are in favor of providing this benefit for their outside directors, compared with 51 percent last year.

In 1990, 42 percent of all respondents provided a pension/retirement plan for board members, up slightly from 41 percent last year and up from the 25 percent reported in 1986 (Table 6C). At the billion dollar corporations, 55 percent included retirement programs in their benefits packages, compared with only 13 percent of companies with revenues under \$400 million.

As in past years, 90 percent of all respondents (92 percent of billion dollar companies) believe that all directors should own some company stock, an increase from 81 percent five years ago. Up considerably from last year, chief executive officers this year recommend that directors own a minimum of 1,528 shares. In 71 percent of the cases, all directors on a given board own shares of stock in the company they serve.

Liability Insurance

Eighty-one percent of all respondents and 89 percent of the \$5 billion-and-over companies currently have directors' liability insurance (Table 6C). Thirty-eight percent of the respondents expect liability insurance to increase in cost within the next 12 months (Table 6D). At 54 percent, retailers were the most inclined to anticipate a rise in liability premiums. Twenty-five percent of all responding firms expect liability insurance to become more difficult to obtain next year (Table 6E). Banks and other financial institutions lead all other industry groups in expecting this to be the case, at 46 percent.

Board Practices and Policies (Table 7)

In 1990, the average number of board meetings dipped to seven (Table 7A). As in previous years, banks and other financial institutions meet most frequently, with an average of 10 meetings a year. Retailers met least often, averaging only six meetings annually.

Time spent on board-related business (including time for meetings and preparation) took a small dip from last year from an average of 94 hours to 93 hours in 1990. Board time commitment continues to decline from the 114 hours reported five years ago.

As in the past, there is a direct correlation between company size and type and time devoted to board matters. While directors of billion dollar-plus companies devoted an average of 104 hours to board-related business (the same as last year), directors of industrials with revenues under \$400 million spent only 77 hours per year on board matters (Table 7B).

Chairmen spend considerably more time on board duties than their directors. They devoted an average of 145 hours to board business in 1990, although the time spent on board activities decreased from the 162 hours reported last year. At billion dollar-plus firms, chairmen spent an average of 151 hours, also a decrease from the 164 hours reported last year and the 175 hours averaged five years ago.

If compensated on an annual plus per-meeting fee basis, outside directors earned an average hourly rate of \$282 this year, compared with \$263 last year and up sharply from the \$179 reported five years ago.

With committee fees considered, the overall average hourly rate for outside directors was \$348, up from \$318 last year.

Locating Outside Directors (Table 8)

Outside directors resigned from the boards of 28 percent of the responding companies during the past year, up slightly from the 25 percent reported in 1989 but about the same as reported five years ago. Time demands was the reason most often cited, at 18 percent, followed by a conflict of interest, at 10 percent. Resignations of outside directors were most common among banks and other financial institutions. In fact, 63 percent of the banks with \$10 billion or more in assets had a director resign from the board.

Sixty-six percent of those surveyed have replaced or intend to replace all directors who retired or resigned in 1990. Forty-six percent of all respondents expect a board vacancy in 1991, the same as last year.

Board vacancies continue to be filled predominantly through recommendations of the chairman (82 percent) and other board members (80 percent). This year, 61 percent used a nominating committee to identify and select new directors, an increase from 55 percent in 1989 and the 58 percent reported five years ago.

Respondents mentioned recommendations of other corporate officers (35 percent) and, for the first time, those of institutional investors (six

percent). The use of executive search firms to locate directors was cited by 14 percent of the total respondents, compared with 12 percent five years ago (Table 8A). At the largest industrials, \$5 billion and over, 20 percent used such services to locate new directors.

Twenty-eight percent of this year's responding companies state that board candidates declined to serve on their boards in the past year, up from 25 percent in 1989 and 22 percent in 1986. Of the respondents experiencing such declines, 66 percent had one refusal, 28 percent reported two, and four percent experienced three or more. Refusals were most common at the \$5 billion-and-over corporations, with 46 percent experiencing such declines.

Time commitment cited by 70 percent of all respondents is the most prevalent reason for declining an invitation to sit on corporate boards, up from 65 percent in 1986. Serving on too many boards and a conflict of interest, also common reasons, were cited by 30 percent and 23 percent, respectively (Table 8B).

The average tenure for directors was reported at 10 years, up from nine years in 1989. Twenty-nine percent of the respondents believe there should be a limit to a director's term of service; those who favor a limit believe the limit should be an average of 10 years.

The average age of the CEO is 57, up from 56 in 1989. Outside directors are 59 year of age, on average. For outside directors at the \$5 billion-and-over firms, the average age is 61.

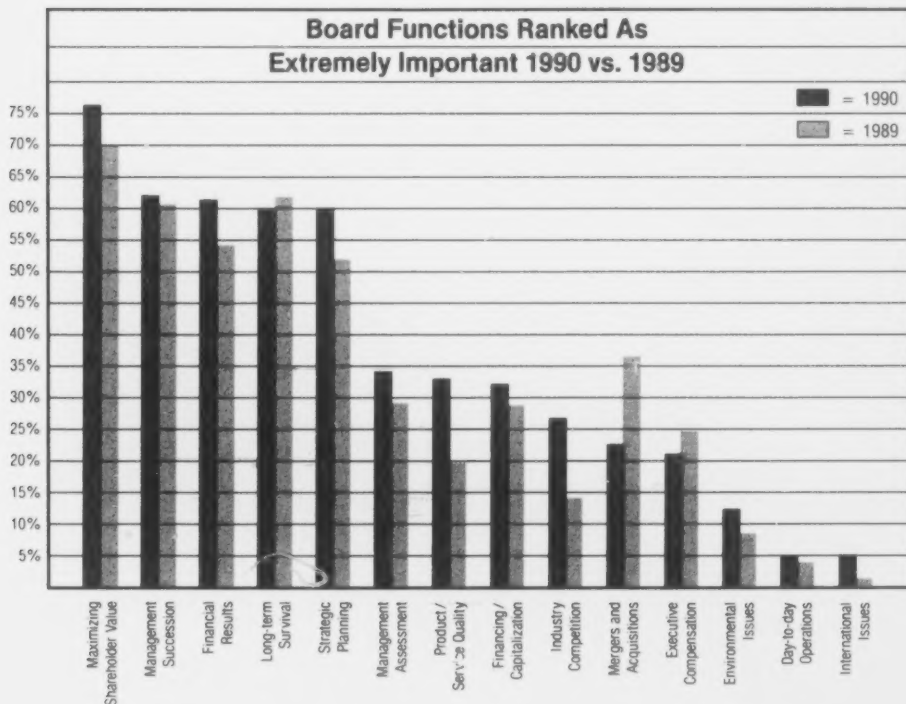
The Role of Institutional Investors

Sixty-seven percent of all respondents surveyed believe that institutional investors exert an influence on corporate policy, but 61 percent of those CEOs say that its effect on their business practices is minor. CEOs of firms with annual revenues of \$1 billion or more are more apt to be influenced by institutional investors; 74 percent believe that these large shareholders have played some role in charting corporate policy.

The most prevalent technique used by institutional investors to make their presence felt is by initiating specific proxy issues for a vote (60 percent), followed by publicly expressing views about the company in the press (56 percent). Other sometimes-used means of exerting influence are withholding proxy votes from the management slate of directors (37 percent) and proposing confidential voting in which proxy voters' identity is known only to auditors (36 percent).

Fully 68 percent of those polled expect the influence of institutional investors to intensify, only two percent expect it to diminish, and 30 percent predict it will remain the same. Not surprisingly, there is a strong positive correlation between company size and the perception

that institutional investor influence is on the rise. While only 39 percent of the firms reporting revenues of under \$400 million have CEOs who think this influence is likely to increase, 75 percent of the CEOs of companies with revenues of \$1 billion or more and 86 percent of the leaders of firms with revenues over \$5 billion believe that institutional investors will take a more active role in monitoring performance and setting some policy.



CEOs ranked management succession as second only to maximizing shareholder value. Mergers and acquisitions were less of a concern than in the previous year.

Board Functions

As in the previous year, chief executive officers of our responding companies rated maximizing shareholder value as an extremely important area of concern facing their boards. Seventy-six percent of the participants cited this issue as extremely important, up from 70 percent last year.

Management succession and financial results were ranked by 62 percent and 61 percent, respectively, as extremely important issues of the board. Larger companies are more concerned than smaller ones with issues of management succession. Eighty-seven percent of the \$5 billion-and-over industrials cited it as an extremely important board function, while 47 percent of the smallest industrials did so. Similarly, 63 percent of the billion dollar firms believe financial results is a concern of extreme importance, while only 47 percent of the smallest industrials do so. Smaller companies are more concerned with mergers and acquisitions. Whereas 47 percent of the under \$400 million industrials ranked mergers and acquisitions extremely important, only 23 percent of the overall respondents gave it that degree of importance.

Among all areas of concern, respondents selected maximizing shareholder value as the most important issue facing the board, followed by management succession and strategic planning. This prioritization occurred across the board, regardless of company size.

One of the functions of boards is to rate senior management performance. Most boards use a variety of criteria, but those most frequently cited as being important are earnings growth (60 percent) and return on equity (47 percent). These indices are being watched more closely than ever because executive pay for performance is becoming a bigger concern for directors at 71 percent of the firms surveyed.

Only five percent of the CEOs surveyed considered international issues extremely important to their boards. This may be a reflection of size and strength of the domestic market. Nevertheless, it also reveals a higher degree of U.S. corporate insularity than is found elsewhere and suggests that global opportunities are either not perceived or are being dismissed as unimportant.

Participating Companies (Table 9)

- Size of participating companies (Table 9A)
- Stock exchange of participating companies (Table 9B)
- Type of participating companies (Table 9C)

TABLE 1—PRESENT NUMBER OF BOARD MEMBERS**What is the present number of board members?**

Type and Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Industrials			
Under \$400 million	3	6	9
\$400 million-\$599 million	3	7	10
\$600 million-\$999 million	4	7	11
\$1 billion-\$2.999 billion	3	8	11
\$3 billion-\$4.999 billion	3	8	11
\$5 billion and over	4	10	14
Banks and other financial institutions ..	4	11	15
Insurance companies	3	12	15
Retailers	3	9	12
Service companies	3	9	12
Average	3	9	12

TABLE 2—CHAIRMAN ALSO CEO, CEO ALSO COO
Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	% Chairman/CEO	% CEO/COO
Yes	77.0%	43.6%
No	23.0%	56.4%
TOTAL	100.0%	100.0%

TABLE 3—BOARD COMPOSITION**3A. Are one or more of the following individuals on the board?**

	% 1986	% 1989	% 1990
CEO/COO (other companies)	74.2%	79.5%	79.8%
Retired executive (other companies) . . .	67.4%	64.1%	61.7%
Woman	42.9%	59.1%	55.6%
Academician	49.7%	55.4%	55.3%
Retired corporate officer	40.2%	47.0%	45.5%
Ethnic minority member	29.5%	31.6%	36.4%
Attorney (does not provide legal services for the company)	35.3%	33.5%	35.2%
Senior executive (other companies)	46.0%	39.5%	33.7%
Commercial banker	25.0%	22.7%	28.5%
Former government official	27.6%	27.7%	28.2%
Major shareholder (not officer of the company)	30.9%	24.1%	27.1%
"Professional" director	25.0%	27.0%	25.9%
Investment banker	24.3%	22.9%	23.3%
Attorney (provides legal services for the company)	23.7%	25.8%	21.3%
Non-U.S. citizen	13.0%	12.0%	12.1%
International executive (U.S. citizen) . . .	6.2%	6.7%	8.6%
└ FIVE-YEAR TREND ┐			

3B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academics	26.4%	34.1%
CEOs/COOs (other companies)	18.1%	25.2%
Attorneys (do not provide legal services for the company)	7.8%	12.2%
Senior executives (other companies) . . .	13.0%	8.1%
Former government officials	10.4%	6.5%
Retired executives (other companies) . .	7.3%	6.5%
"Professional" directors	13.5%	5.7%
Major shareholders (not officers of the company)	9.3%	0.8%

3C. Would a director with international experience be a valuable asset to your board?

	%
Yes	63.9%
No	36.1%
TOTAL	100.0%

If yes, from which geographic areas?

	%
Western Europe	42.5%
Eastern Europe	34.8%
South America	8.0%
Asia Pacific Rim	5.0%
Mideast	3.0%
Canada	2.0%

TABLE 4—COMPENSATION

4A. How are board members compensated?

Compensation	% 1986	% 1989	% 1990
Annual plus per-meeting fee (see Table 4B and 4C for amounts)	83.1%	87.7%	87.7%
Annual fee only	9.7%	9.3%	10.2%
Per-meeting fee only	3.5%	3.0%	2.1%
No response	3.7%	—	—
TOTAL	100.0%	100.0%	100.0%

FIVE-YEAR TREND

4B. Annual Plus Per-Meeting Fee

Total Average Annual Compensation	% 1986	% 1989	% 1990
Under \$7,000	2.3%	0.3%	—
\$7,000–\$10,999	7.0%	2.6%	1.1%
\$11,000–\$13,999	10.0%	3.2%	1.7%
\$14,000–\$16,999	15.9%	8.1%	8.1%
\$17,000–\$19,999	14.3%	13.0%	9.5%
\$20,000–\$24,999	25.9%	26.3%	23.6%
\$25,000–\$29,999	24.6%	21.1%	25.0%
\$30,000 and over	na	25.4%	31.0%
TOTAL	100.0%	100.0%	100.0%
Average Total Annual Compensation ...	\$20,462	\$24,729	\$26,190

FIVE-YEAR TREND

**4C. Annual Plus Per-Meeting Fee
(continued)**

Type and Size of Company	1986 Average Compensation	1990 Average Compensation	1990 Upper Quartile Average
Industrials			
Under \$400 million	\$15,089	\$21,407	\$28,925
\$400 million-\$599 million	\$17,011	\$21,568	\$29,000
\$600 million-\$999 million	\$20,593	\$23,176	\$31,200
\$1 billion-\$2.999 billion	\$21,279	\$25,238	\$32,356
\$3 billion-\$4.999 billion	\$26,447	\$29,414	\$39,667
\$5 billion and over	\$28,820	\$34,839	\$43,406
Banks and other financial institutions ..	\$18,471	\$24,321	\$33,900
Insurance companies	\$18,863	\$25,512	\$32,844
Retailers	\$22,249	\$29,250	\$40,250
Service companies	\$20,653	\$25,125	\$34,358
Average	\$20,462	\$26,190	\$36,297
	FIVE-YEAR TREND		

TABLE 5—COMMITTEE COMPENSATION

5A. What is the average committee fee for outside directors?

Committee	Average Per-Meeting Fee	Average Retainer
Audit	\$ 877	\$3,604
Compensation/Benefits	\$ 810	\$3,782
Executive	\$1,119	\$5,974
Nominating	\$ 846	\$4,431
Finance	\$ 913	\$4,494

**5B. What is the average total annual compensation, including
committee fees, for outside directors?**

Type and Size of Company	1986 Average	1990 Average	1990 Upper Quartile
Industrials			
Under \$400 million	\$16,475	\$23,933	\$30,440
\$400 million-\$599 million	\$19,700	\$25,400	\$31,800
\$600 million-\$999 million	\$22,414	\$26,100	\$37,220
\$1 billion-\$2.999 billion	\$25,146	\$31,412	\$40,189
\$3 billion-\$4.999 billion	\$31,399	\$35,283	\$48,650
\$5 billion and over	\$36,548	\$44,615	\$60,744
Banks and other financial institutions ..	\$21,500	\$28,482	\$40,857
Insurance companies	\$24,406	\$33,780	\$47,280
Retailers	\$25,999	\$34,778	\$51,500
Service companies	\$23,482	\$30,721	\$43,015
Average	\$23,676	\$32,352	\$47,187
	FIVE-YEAR TREND		

TABLE 6—ADDITIONAL COMPENSATION INFORMATION**6A. Has board compensation been raised within the last 12 months?**

	% 1989	% 1990
Yes	40.2%	41.8%
No	59.8%	58.2%
TOTAL	100.0%	100.0%

If yes, by how much?

Type and Size of Company	Annual Retainer	Per-Meeting Fee
Industrials		
Under \$400 million	\$4,160	\$242
\$400 million-\$599 million	\$2,667	\$210
\$600 million-\$999 million	\$4,200	\$140
\$1 billion-\$2.999 billion	\$2,907	\$175
\$3 billion-\$4.999 billion	\$3,200	\$150
\$5 billion and over	\$7,006	\$185
Banks and other financial institutions ..	\$7,100	\$130
Insurance companies	\$5,406	\$261
Retailers	\$3,833	\$350
Service companies	\$3,371	\$279
Average	\$4,571	\$243

6B. How much did the highest paid director receive in 1990 for all board services exclusive of any consulting arrangement?

Type and Size of Company	1986 Average Compensation	1990 Average Compensation	1990 Upper Quartile Average
Industrials			
Under \$400 million	\$20,111	\$25,700	\$31,167
\$400 million-\$599 million	\$19,288	\$26,192	\$32,133
\$600 million-\$999 million	\$25,526	\$28,925	\$46,857
\$1 billion-\$2.999 billion	\$29,297	\$34,175	\$45,144
\$3 billion-\$4.999 billion	\$37,184	\$38,296	\$49,778
\$5 billion and over	\$48,366	\$52,555	\$80,035
Banks and other financial institutions ..	\$28,962	\$34,128	\$49,694
Insurance companies	\$30,756	\$40,917	\$65,071
Retailers	\$27,051	\$38,625	\$53,500
Service companies	\$27,890	\$34,949	\$52,888
Average	\$28,572	\$36,725	\$57,172

FIVE-YEAR
TREND

6C. What benefits are included in the compensation plan for outside directors?

	% 1986	\$ 1990
Travel expense reimbursement	91.5%	90.5%
Directors' liability insurance	84.1%	80.7%
Deferral of board fees until retirement ..	66.8%	64.0%
Matching educational gifts program	47.2%	51.6%
Pension/retirement income plan	25.4%	41.8%
Accident insurance	41.2%	36.3%
Travel expenses for spouse	22.7%	30.3%
Stock options	8.2%	25.4%
Life insurance	23.3%	21.6%
Stock grants	na	15.0%
Medical insurance	12.6%	13.3%
	FIVE-YEAR TREND	

6D. Within the next 12 months do you expect your directors' liability insurance to become more expensive?

	%
Yes	37.9%
No	62.1%
TOTAL	100.0%

6E. Within the next 12 months do you expect your directors' liability insurance to become more difficult to obtain?

	%
Yes	25.0%
No	75.0%
TOTAL	100.0%

TABLE 7—BOARD PRACTICES AND POLICIES**7A. How many regular board meetings are held during the fiscal year?**

Meetings Per Year	%
Under 5	22.0%
5-6	28.7%
7-9	26.4%
10-12	21.7%
13 and over	1.2%
TOTAL	100.0%
Average	7 meetings

7B. How many hours (estimated) do directors spend annually on board matters, including meetings and preparation?

Number of Hours	% 1989	% 1990
Under 40	14.0%	13.4%
40-70	25.3%	25.6%
71-100	26.1%	27.6%
101-130	15.7%	17.7%
131-160	9.5%	7.5%
161-190	4.7%	4.3%
191 and over	4.7%	3.9%
TOTAL	100.0%	100.0%
Average	94 hours	93 hours

Type and Size of Company	Average Number of Hours	Upper Quartile Average
Industrials		
Under \$400 million	77	140
\$400 million-\$599 million	76	123
\$600 million-\$999 million	89	166
\$1 billion-\$2.999 billion	106	208
\$3 billion-\$4.999 billion	115	176
\$5 billion and over	107	165
Banks and other financial institutions ..	79	137
Insurance companies	81	151
Retailers	76	118
Service companies	93	157
Average	93	159

TABLE 8—LOCATING OUTSIDE DIRECTORS**8A. How are outside directors located for the board?**

	% 1986	% 1990
Recommendation of chairman	80.6%	82.4%
Recommendation of board members ...	80.8%	79.5%
Nominating committee	57.9%	61.3%
Recommendation by other corporate officers	37.7%	35.4%
Executive search	12.0%	14.1%
Referral of institutional investors	na	6.1%
	FIVE-YEAR TREND	

8B. Have any prospective directors declined an invitation to serve on the board during the past year?

	% 1986	% 1989	% 1990
Yes	22.2%	24.9%	27.7%
No	75.7%	75.1%	72.3%
No response	2.1%	—	—
TOTAL	100.0%	100.0%	100.0%
	FIVE-YEAR TREND		

If yes, what are the predominant reasons?

	% 1986	% 1989	% 1990
Time commitment	64.9%	67.0%	70.0%
On too many boards	28.9%	37.1%	30.0%
Conflict with other boards	na	na	23.3%
Conflict of interest	21.9%	24.7%	14.4%

TABLE 9—PARTICIPATING COMPANIES**9A. Size of Participating Companies**

	Number of Companies	%
Industrials		
Under \$400 million	15	4.3%
\$400 million-\$599 million	15	4.3%
\$600 million-\$999 million	31	8.8%
\$1 billion-\$2,999 billion	46	13.1%
\$3 billion-\$4,999 billion	17	4.8%
\$5 billion and over	47	13.3%
Banks and other financial institutions ..	35	9.9%
Insurance companies	43	12.2%
Retailers	15	4.3%
Service companies	88	25.0%
TOTAL	352	100.0%

9B. Stock Exchange of Participating Companies

	%
New York Stock Exchange	57.2%
American Stock Exchange	3.5%
Over-the-counter	15.2%
Other (private, mutual)	24.1%
TOTAL	100.0%

9C. Type of Participating Companies

	%
Industrial	48.6%
Banks and other financial institutions ..	9.9%
Insurance	12.2%
Retail	4.3%
Service	25.0%
TOTAL	100.0%

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**This year 1,000 companies were asked to participate. There were 352 responses available for tabulation at our deadline. The companies asked to participate included the Fortune 500, the Fortune 100 major service companies, the Fortune 50 major banking institutions, 50 major insurance companies, 50 major diversified financial companies, 50 major retailers, 50 major transportation companies and 150 selected smaller companies.*

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